

Message Text

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SUBJECT: ADDITIONAL DETAILS ON PROPOSED 1977 ECONOMIC RECOVERY
ACT

REF: BRUSSELS 11924

1.SUMMARY.DETAILS OF THE BELGIAN GOVERNMENT'S PROPOSED
ECONOMIC RECOVERY ACT FOR 1977 ARE NOW AVAILABLE.THE MEASURE
IS ESSENTIALLY A WEAKER VERSION OF THE INCOMES POLICY
INITIATED A YEAR AGO TO CATEM INFLATION.THERE IS NO SERIOUS
OPPOSITION TO IT,AND PARLIAMENTARY CONSIDERATION SHOULD MOVE
QUICKLY.ON WAGES,EXISTING LIMITATIONS ARE LARGEY DROPPED
IN FAVOR OF RELIANCE ON A JOINT LABOR-MANAGEMENT STATEMENT
OF GOOD INTENTIONS.FIRMS WILL NOT BE ALLOWED,HOWEVER,TO
CLAIM PRICE INCREASES BASED ON REAL WAGE HIKES,AND SEVERAL
OTHER PROVISIONS WILL ALSO BE IN FORCE TO DISCOURAGE
INFLATIONARY SETTLEMENTS.THE TRAGET IS AN OVERALL
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INCREASE IN REAL WAGES APPROXIMATATING PROJECTED REAL GNP
GROWTH ON 1977 I.E., 3-3.5 PERCENT.MOST OTHER TYPES OF
NON-WAGE INCOME ARE GENERALLY LIMTED TO A MAXIMUM ROSE OF
8.05 PERCENT IN CURRENT TERMS DURING THE COMING YEAR.END SUMMARY.

2.THE GOVERNMENT HAS SUBMITTED ITS PROPOSED ECONOMIC RECOVERY

ACT FOR 1977 (SEE REFTEL) TO THE PARLIAMENT, AND ITS DETAILS ARE NOW AVAILABLE. PARLIAMENTARY CONSIDERATION IS MOVING QUICKLY, WITH NO SERIOUS OPPOSITION BEING STIMULATED BY LABOR, MANAGEMENT OR OTHER INTEREST GROUPS. THE ACT THUS APPEARS TO STAND A GOOD CHANCE OF PARLIAMENTARY APPROVAL BEFORE EXPIRATION OF ITS 1976 PREDECESSOR ON DECEMBER 31.

3. THE 1977 PROPOSAL IS ENTITLED " PROPOSED MEASURES RELATIVE THE MAINTENANCE OF EMPLOYMENT, PURCHASING POWER, AND COMPETITIVENESS OF THE ECONOMY." IN INTRODUCTORY REMARKS, THE GOVERNMENT NOTES THAT ALTHOUGH THE 1976 ECONOMIC RECOVERY ACT PROVED USEFUL, IT HAS NOT RESOLVED STRUCTURAL PROBLEMS IN THE BELGIAN ECONOMY I.E., INDUSTRIAL RECONVERSION, UNEMPLOYMENT, AND INFLECTION. THE PICTURE IS ALSO BLEAK AS CONCERNS THE CURRENT ECONOMIC SITUATION. INDUSTRIAL PRODUCTION REMAINS STAGNANT WITH MANY BUSINESSES ON THIN FINANCIAL ICE; 219 COMPANIES FAILED IN THE THIRD QUARTER OF 1976, WITH 8,000 JOBS LOST (VS. 103 AND 5,00 DURING THE SAME PERIOD OF 1975). THE ONLY GOOD NEWS, ACCORDING TO THIS ANALYSIS, IS THAT SALARY COSTS PER UNIT PRODUCED HAVE REMAINED VIRTUALLY CONSTANT FROM MID-1975 THROUGH MID-1976. PARTIALLY AS A RESULT, THE ANNUAL INFLECTION RATE HAS DROPPED FROM OVER 15 PERCENT IN 1974 TO A PROJECTED 7.5 PERCENT IN 1976.

4. TO DEAL WITH THIS SITUATION, THE GOVERNMENT IS NOT PROPOSING ANY STIMULATIVE MEASURES. EFFECTIVE DEMAND, IT HOLDS, MUST COME FROM A STRONGER ECONOMIC REVIVAL IN THE LARGE INDUSTRIALIZED COUNTRIES. AS WAS THE CASE WITH ITS PREDECESSOR IN 1976, THE 1977 PROPOSAL IS THUS IN EFFECT AN ANTI-INFLECTION EFFORT THROUGH THE UNCLASSIFIED

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EXERCISE OF CONTROLS ON REVENUES. ITS MAIN PROVISIONS ARE AS FOLLOWS:

A. WAGES. THE GOVERNMENT WILL NOT SET ANY PRECONDITIONS, EVEN TO THE LIMITED EXTENT IT DID SO IN 1976. AUTOMATIC INDEXATION OF WAGES IN EXCESS OF BF 41,250 A MONTH IS REINSTATED EFFECTIVE JANUARY 1 (WITH THE CALCULATION MADE ON THE BASIS OF WHAT THESE WAGES WOULD HAVE BEEN IF INDEXATION HAD NOT BEEN SUSPENDED THIS YEAR). THERE WILL NO LONGER BE ANY REQUIREMENT FOR MANAGEMENT AND LABOR TO PAY PART OF REL (I.E., NEGOTIATED) SALARY INCREASES INTO A SPECIAL " SOLIDARITY FUND" TO FINANCE EARLY RETIREMENT OF OLDER WORKERS.

THE " SOLIDARITY FUND" WILL HENCEFORTH BE FUNDED MAINLY BY THE PROCEEDS OF A RENEWED 4.8 PERCENT CORPORATE TAX ON " EXCESS " PROFITS I.E., THOSE WHICH EXCEED 1976 LEVELS.

AS REPORTED REFTEL, THE GOVERNMENT IS PLACING ITS PRINCIPAL HOPES FOR WAGE DISCIPLINE A JOINT DECLARATION ISSUED ON NOVEMBER 29 BY MANAGEMENT AND LABOR LEADERS.

THIS STATEMENT PLEDGES THE LEADERS' BEST EFFORTS TO SAFEGUARD JOBS, BUYING POWER AND THE INTERNATIONAL COMPETITIVENESS OF BELGIAN INDUSTRY. TO INHIBIT INFLATIONARY WAGE SETTLEMENTS AT THE SECTOR AND/OR PLANT LEVEL, THE GOVERNMENT FURTHER STATES THAT (1) FIRMS' REQUEST TO THE AUTHORITIES FOR PRICE INCREASES OR REVISION OF CONTRACT TERMS WILL BE REFUSED TO THE EXTENT THAT THEY ARE BASED ON WAGE INCREASES IN EXCESS OF MERE INDEXATION INCREASES; (2) OFFICIAL AID NORMALLY AVAILABLE TO FIRMS IN FINANCIAL DIFFICULTIES, AS WELL AS GOVERNMENT CONTRACTS OR ORDERS, MAY BE REFUSED TO THOSE WHOSE PROBLEMS STEM FROM OVERLY GENEROUS WAGE SETTLEMENTS (3) THE COUNCIL OF MINISTERS WILL REVIEW WAGE AGREEMENTS AT THE SECTOR LEVEL AND WILL REFUSE TO RENDER OFFICIAL THOSE THAT IT DEEMS INFLATIONARY; IN SUCH CASES, THE GOVERNMENT WOULD CALL IN LABOR AND MANAGEMENT TO CONSIDER A NEW SETTLEMENT (THE GOVERNMENT WILL ALSO HOLD A ABEYANCE, FOR NOW, POSSIBLE NEW LEGISLATION WHICH WOULD FORMALIZE SUCH MEASURES AND WHICH COULD INVOLVE A DEGREE OF ARBITRATION).

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THE NEW ACT DOES NOT GIVE A FIGURE ON HOW LARGE A REAL INCREASE IN WAGES HAS TO BE BEFORE IT IS CONSIDERED EXCESSIVE. GOVERNMENT OFFICIALS ARE INTIMATING, HOWEVER, THAT WAGES OVERALL SHOULD NOT INCREASE IN REAL TERMS MORE THAN THE EXPECTED REAL GAIN INGENP NEXT YEAR I.E, 3-3.5 PERCENT.

THIS IS AN AVERAGE WORKERS IN CERTAIN COMPARATIVELY HEALTHY SECTORS

SUCH AS PETROLEUM, BANKS AND CHEMICALS MAY GET AWAY WITH MORE WHILE THOSE IN DIFFICULTY (E.G., TEXTILES, STEEL) MIGHT BE EXPECTED TO ACCEPT LESS. THE GOVERNMENT HOPES TO LIMIT PRICE INFLATION IN 1977 TO 5-6 PERCENT, SO SUCH A MODEST LEVEL OF REAL WAGE INCREASES, COMBINED WITH THE USUAL INDEXATION ADJUSTMENTS, COULD APPROXIMATE THE 8.5 PERCENT GROWTH CEILING THE ACT PLANCES ON OTHER TYPES OF REVENUE (SEE BELOW).

B. DIVIDENDS AND BONUSES MAY NOT BE INCREASED BEYOND 8.5 PERCENT IN 1977 OVER THEIR LEVEL IN 1976.

FIRMS WHICH PUT IN NEW CAPITAL EQUAL TO AT LEAST 10 PERCENT OF EXISTING CAPITAL ARE ENTITLED, HOWEVER, TO RAISE DIVIDENDS WITHOUT LIMITATION.

C. PROFESSIONAL FEES (E.G. DOCTORS, LAWYERS) AND ALL RENTS ARE LIKEWISE LIMITED TO 8.5 PERCENT INCREASE OVER THEIR LEVEL IN 1976. IN THE FORMER CASE, THE LIMITATION IS LARGELY COSMETIC AFTER A YEAR OF EXPERIENCE WITH INCOME CONTROLS, GOVERNMENT OFFICIALS ADMIT THAT ENFORCEMENT OF THEM ON PROFESSIONAL SERVICES IS ALMOST IMPOSSIBLE.

5. EMBASSY WILL PROVIDE COMPLETE TEXT OF THIS LEGISLATION ONCE IS IS APPROVED BY PARLIAMENT.

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